

Service Date: August 4, 2006

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER OF CUT BANK GAS	)	UTILITY DIVISION
COMPANY, Application for General Rate	)	
Increase	)	DOCKET NO. D2006.2.15
	)	ORDER NO. 6720c

**FINAL ORDER**

Introduction

1. On February 6, 2006, Cut Bank Gas Company (CBG) filed before the Public Service Commission (PSC) an application for approval of increased rates for natural gas service to all customers within CBG's service area. In its application CBG proposes a \$158,907 increase in annual revenues. CBG states that the increase is necessary for CBG to earn a fair rate of return on its rate base and stockholders' equity and for CBG to sustain its operations. CBG also states that it is operating at a loss and cannot continue to do so. CBG proposes that the revenue increase be collected through increasing CBG's existing \$7.55 per meter monthly customer charge to \$18.08. In its application CBG also proposes a modest decrease, \$0.1475 per 1,000 cubic feet (Mcf), to its commodity charge. CBG's application states or implies an emergency nature regarding the requested revenue increase.

2. On February 9, 2006, the PSC issued a public notice of CBG's application. The PSC notice allowed for intervention (obtaining party status) by March 9, 2006. The notice also allowed for public comments to the PSC, in writing, mailed or e-mailed. The Montana Consumer Counsel (MCC) is the only person requesting intervention in the proceeding. The PSC has granted MCC's request. A few written public comments have been received.

3. In its February 6, 2006, application CBG also requested interim (temporary) approval of its requested increase in annual revenues. On March 22, 2006, the PSC issued an interim order granting about one-half of CBG's requested increase in annual revenues and directed

that the increase be collected through an equal percentage change to CBG's monthly customer charge and CBG's commodity charge. *See, this docket, PSC Order No. 6720a.* On March 28, 2006, CBG filed a request that the PSC reconsider the interim approval, arguing that CBG's financial condition requires an interim order granting the full CBG-requested interim revenue increase and requires collection of that revenue increase in the manner proposed by CBG. On March 31, 2006, the PSC issued a second interim order, granting CBG most of the CBG-requested revenue increase and allowed that increase to be collected through CBG's monthly customer charge. *See, this docket, PSC Order No. 6720b.* At the same time the PSC amended the procedural schedule to allow for an expedited public hearing on CBG's application.

4. On May 8, 2006, CBG and MCC submitted a stipulation, agreeing that CBG's annual revenues should be increased by \$135,797 and agreeing that the increase should be collected, in part, through an increase in CBG's customer charge from the existing \$7.55 per meter per month to \$13.00. CBG and MCC also agreed that CBG's authorized return on equity should be 10.27 percent per year. CBG and MCC also agreed that all overcollections that may have resulted from CBG's implementation of the PSC interim orders in this docket should be refunded to customers over a period not to exceed 6 months and with interest at 10.27 percent per year.

5. The PSC issued a notice of public hearing on May 12, 2006. Public hearing on CBG's application was held June 1, 2006, in Cut Bank. At the public hearing evidence was taken and public comment was received.

#### Findings of Fact and Discussion

6. All introductory statements that can properly be considered findings of fact and that should be considered as such to preserve the integrity of this order are incorporated herein as findings of fact.

7. CBG does have problems, including financial problems. At least some of the financial problems are related to CBG's rates. An increase in CBG's annual revenues and a shift in

the manner through which CBG's annual revenues are collected are justified and should resolve some of CBG's problems. Increasing CBG's monthly customer charge is a reasonable and necessary component of this resolution. The PSC finds that the stipulation between CBG and MCC will result in just and reasonable rates under the circumstances and should be approved. However, the PSC has several concerns about CBG, as explained in the following paragraphs.

8. Public testimony was very critical of CBG's customer billing. CBG's monthly customer bills are developed manually, issued in hand-written form, provide no historic customer gas use, and are unfathomable. This billing practice is archaic and time consuming. CBG's customer bills are incomplete and confusing to customers and appear to hinder rather than help CBG's customers in making rationale economic choices regarding use of natural gas in basic household or business needs. CBG needs to address this billing and customer account issue rapidly. CBG should consider an electronic accounting and billing system(s) and a bill format that includes the essential components of natural gas service in a way that customers will easily understand. Copies of contemporary natural gas bills used by other Montana utilities are readily available to CBG. Accurate, verifiable, and easily understandable customer account and utility billing systems are a basic requirement of adequate utility service in modern times. The PSC expects that a cost effective, efficient customer accounting and billing system should be available to a utility the size of CBG.

9. CBG uses an outside accounting firm for preparation of CBG's financial statements, including the annual report to the PSC and tax returns. A member of that firm is also the CBG treasurer, which prevents the firm from providing audited financial statements. As a result CBG may have an exposure that it would not have with independent audits. As discussed above in regard to billing and customer accounts, it is troubling that CBG does not have and use a computer and related software for its other accounting requirements. Such system should also enable CBG to build a data base to assist CBG management decision making and enable consumers, the MCC, and the PSC to effectively evaluate CBG requests for rate and other regulatory reviews.

10. CBG has developed serious financial problems during the past several years. Financial and related problems are usually management problems. CBG's delay and apparent inability to present a basic rate case, which would satisfy necessary MCC and PSC staff discovery and allow timely review, is distressing to the PSC. CBG's recent decision to retain an outside regulatory consultant to establish a current revenue requirement baseline was essential and positive. The PSC expects CBG to perform in a responsible and continuing manner under the new rates to provide safe, adequate, and reliable service to customers and to avoid future financial crises and emergency representations.

11. Executive compensation is certainly a sore subject with the public witnesses who testified or otherwise provided comments in this proceeding. Public testimony emphasized that any new CBG vehicle be purchased for service personnel rather than management. It is important that CBG's operating fleet and equipment be adequately maintained and periodically upgraded and replaced to assure adequate and reliable service. Improving CBG's operating efficiencies should also improve CBG management's focus and priorities. CBG should consider a professional management review or consultation in regard to this. Given the relatively few public witnesses providing comments, it is possible that the public criticisms and apparent lack of credibility concerning CBG management do not reflect the overall view of the Cut Bank community and CBG customers. However, the PSC is alarmed by the public testimony in the context of CBG representations of emergency financial conditions, imminent bankruptcy, inadequate rates, safety, employee issues, and basic operational and supply deficiencies.

12. Based upon the foregoing analyses and findings, the PSC determines that CBG must file quarterly updates to the PSC concerning CBG's financial condition, billing and accounting systems, safety training and concerns, distribution system repair and replacement, leak and cathodic protection surveys, adequacy of distribution system materials and supplies, and other items identified in CBG's February 6, 2006, application and petition for interim rate relief on an emergency basis and CBG's subsequent March 28, 2006, motion for reconsideration on an emergency basis. The quarterly reports should be presented to and signed by the members of the

CBG Board of Directors and then forwarded to the PSC along with a copy of the CBG board minutes concerning the board's considerations of these quarterly progress reports. CBG must provide a copy of this information to the MCC at the same time of filing with the PSC. The first quarterly report will be due 3 months from the service date of this order and at the end of each consecutive 3 month period thereafter, until the PSC determines the reports are no longer necessary or until CBG demonstrates to the PSC's satisfaction, through an application to the PSC, that the reports could be filed at longer intervals or are no longer necessary based on CBG's progress in addressing the PSC's concerns.

#### Conclusions of Law and Discussion

13. All findings of fact that can properly be considered conclusions of law and that should be considered as such to preserve the integrity of this order are incorporated herein as conclusions of law.

14. CBG is a public utility in accordance with § 69-3-101, MCA. The PSC has jurisdiction over public utilities regarding rates and quality of service in accordance with Title 69, MCA.

15. CBG's application is proper in form and was properly noticed and heard in accordance with Title 69, Chapter 12, MCA, and Title 2, Chapter 4, MCA (Montana Administrative Procedures Act).

16. The stipulation between CBG and MCC results in just and reasonable rates in accordance with § 69-3-201, MCA.

17. The PSC has the authority to require information (*e.g.*, quarterly reports) from public utilities in accordance with §§ 69-3-102, 69-3-102, and 69-3-106, MCA.

#### ORDER

18. All conclusions of law that can properly be considered an order and that should be

considered as such to preserve the integrity of this order are incorporated herein as an order.

19. All pending objections, motions, and arguments not specifically having been ruled on in this order (if any) shall be deemed denied, to the extent that such denial is consistent with this order.

20. The PSC, being fully apprised of all premises, hereby orders that the May 8, 2006, stipulation between CBG and MCC is approved and, in accordance with that stipulation:

- a. CBG is allowed to increase annual revenues by \$135,797;
- b. CBG will collect the increased revenues through an increase in CBG's monthly customer charge from the existing \$7.55 per meter to \$13.00 per meter and through an increase in CBG's commodity charge;
- c. CBG's authorized return on equity will be 10.27 percent;
- d. all overcollections resulting from CBG's implementation of the PSC interim orders in this docket will be refunded to customers over a period not to exceed 6 months, with interest at the rate of 10.27 percent; and
- e. CBG will implement the rate changes effective for services rendered on and after August 1, 2006.

21. The CBG commodity charge increase that is necessary for CBG to recover the stipulated, and approved, increase in annual revenues is \$0.16743 per Mcf. This change applies to CBG commodity charge that was in effect prior to the interim orders issued in this docket.

22. CBG must file tariffs reflecting the rate provisions of this order.

23. CBG must file its refund proposal, identifying the total amount that must be refunded in accordance with the stipulation and this order, the amount of refund per customer per customer class, and the period through which the refund will be in effect. A copy of the proposal must be provided to MCC.

24. It is hereby further ordered by the PSC that CBG will comply with the quarterly report requirement at ¶ 12 of this order.

Done and dated this 1st day of August, 2006, by a vote of 5-0.



BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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GREG JERGESON, Chairman

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BRAD MOLNAR, Vice-Chairman

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DOUG MOOD, Commissioner

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ROBERT H. RANEY, Commissioner

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THOMAS J. SCHNEIDER, Commissioner

ATTEST:

Connie Jones  
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.